Financial Statements of

Saskatchewan Association of Health Organizations Master Trust Combined Investment Fund

December 31, 2010

Provincial Auditor Saskatchewan

1500 Chateau Tower
1920 Broad Street
Regina, Saskatchewan
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INDEPENDENT AUDITOR'S REPORT

To: The Members of the Saskatchewan Association of Health Organizations

I have audited the accompanying financial statements of Saskatchewan Association of Health Organizations Master Trust Combined Investment Fund (Fund), which comprise the statement of net assets as at December 31, 2010 and the statements of operations and changes in net assets and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with Canadian generally accepted accounting principles, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

My responsibility is to express an opinion on these financial statements based on my audit. I conducted my audit in accordance with Canadian generally accepted auditing standards. Those standards require that I comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

Opinion

In my opinion, the financial statements present fairly, in all material respects, the net assets of the Fund as at December 31, 2010, and the results of its operations and cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

Regina, Saskatchewan
May 19, 2011

Bonnie Lysyk, MBA, CA•CIA
Provincial Auditor

Provincial Auditor Saskatchewan

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To: The Members of the Legislative Assembly of Saskatchewan

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Regina, Saskatchewan
May 19, 2011

Bonnie Lysyk, MBA, CA•CIA
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SASKATCHEWAN ASSOCIATION OF HEALTH ORGANIZATIONS
MASTER TRUST COMBINED INVESTMENT FUND
Statement of Net Assets
As at December 31

		2010	2009
ASSETS			
Investments (Note 3):			
Short term investments		**$ 546,209**	$ 1,664
Bond funds		**60,615,653**	53,795,866
Equities	- Canadian	**18,274,344**	16,496,440
	- U.S.	**9,587,475**	8,147,081
	- Non North American pooled funds	**13,559,872**	13,300,459
	- Global pooled funds	**20,403,118**	16,680,989
		122,986,671	108,422,499
Cash		**35,317**	33,480
Dividends receivable		**27,360**	30,222
TOTAL ASSETS		**123,049,348**	108,486,201
LIABILITIES AND NET ASSETS			
Securities transactions payable		**-**	32,980
Total Liabilities		**-**	32,980
Net Assets (Note 5)		**123,049,348**	108,453,221
TOTAL LIABILITIES AND NET ASSETS		**$ 123,049,348**	$ 108,486,201

See accompanying notes

On behalf of the SAHO Board of Directors:

Director

Director

SASKATCHEWAN ASSOCIATION OF HEALTH ORGANIZATIONS
MASTER TRUST COMBINED INVESTMENT FUND
Statement of Operations and Changes in Net Assets
For the Year Ended December 31

	2010	2009
Investment Income		
Interest	**$ 2,426,513**	$ 2,234,256
Dividends	**1,286,559**	1,429,485
Net realized gain (loss) on sale of investments	**1,438,409**	(5,818,320)
Unrealized gain on investments	**2,633,405**	15,337,122
	7,784,886	13,182,543
Value of Master Trust units issued	**7,020,054**	6,199,151
Value of Master Trust units redeemed	**(208,813)**	(1,372,367)
Investment management fees	**-**	(17,408)
	6,811,241	4,809,376
Net increase to Net Assets	**14,596,127**	17,991,919
NET ASSETS, BEGINNING OF YEAR	**108,453,221**	90,461,302
NET ASSETS, END OF YEAR	**$ 123,049,348**	$ 108,453,221

See accompanying notes

SASKATCHEWAN ASSOCIATION OF HEALTH ORGANIZATIONS
MASTER TRUST COMBINED INVESTMENT FUND
Statement of Cash Flows
For the Year Ended December 31

	2010	2009
INVESTING AND OPERATING ACTIVITIES		
Proceeds from issuing Master Trust units	$ 7,020,054	$ 6,226,125
Redemption of Master Trust units	(208,813)	(1,372,367)
Proceeds from sale of investments	15,674,577	35,941,209
Purchase of investments	(26,518,753)	(44,333,143)
Investment income received	4,034,772	3,562,164
Investment management expenses paid	-	(17,408)
Net cash flows provided by investing and operating activities	1,837	6,580
CASH, BEGINNING OF YEAR	33,480	26,900
CASH, END OF YEAR	$ 35,317	$ 33,480

See accompanying notes

SASKATCHEWAN ASSOCIATION OF HEALTH ORGANIZATIONS
MASTER TRUST COMBINED INVESTMENT FUND
Notes to the Financial Statements
December 31, 2010

1. DESCRIPTION OF THE MASTER TRUST COMBINED INVESTMENT FUND

The Saskatchewan Association of Health Organizations (SAHO) administers the assets on behalf of four disability income plans [the Canadian Union of Public Employees (C.U.P.E.) Plan, the Service Employees International Union (S.E.I.U.) Plan, the General Plan, and the Saskatchewan Union of Nurses (S.U.N.) Plan (the Plans)]. SAHO (the Administrator) receives directions from the SAHO Board of Directors who receive advice from the Employee Benefits Committee, in accordance with the terms of each applicable collective agreement.

The investments of the Plans are managed as a pooled investment fund referred to as the Master Trust Combined Investment Fund (the Master Trust). Its purpose is to provide a secure investment structure which is then used to provide funding to the Plans for present and future disability payments to eligible claimants.

Each disability plan's interest in the Master Trust is based on the number of units they hold at any point in time relative to the total units issued and outstanding. Under the terms of the Master Trust:

- Ownership units of the Master Trust were initially allocated to the unit holders based on the fair value of the investment portfolios contributed;
- The fair value of the Master Trust ownership units are calculated at each calendar month-end by dividing the outstanding ownership units into the month-end fair value of the Master Trust; and
- Net gains realized, interest, and dividends earned by the Master Trust are allocated to the unit holders at the end of the year based on the number of Master Trust ownership units owned at December 31.

2. SIGNIFICANT ACCOUNTING POLICIES

These financial statements have been prepared in accordance with Canadian generally accepted accounting principles (GAAP) and include the following significant accounting policies:

a) Financial instruments

All financial instruments that are financial assets or financial liabilities have been identified and classified. The classification determines how each financial instrument is measured. The Master Trust's financial instruments and their classifications, as determined by the Administrator and are as follows:

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

a) Financial instruments (continued)

(i) Securities transactions receivable, Dividends receivable, and Securities transactions payable

Dividends receivable are classified as loans and receivables. Securities transactions payable are classified as other liabilities. Each of these is measured at amortized cost which approximates their fair value due to their short term nature.

(ii) Investments

Investments are classified as held-for-trading as this classification reflects the investment intentions of the Master Trust. Investments are recorded at fair value which is based on published quotes.

The Master Trust uses the accrual method for recording income and expenses. Dividends and pooled fund distributions are recognized when declared. Interest income is recorded using the effective interest method. Investment transactions are accounted for on the trade date with identifiable transactions costs being expensed when incurred.

Gains and losses are recorded in revenues or expenses when realized and are determined with reference to the average cost of investments. Unrealized changes in fair value are determined with reference to the average cost of investments and are recorded in revenues or expenses for the period in which the change in the fair value occurs.

(iii) Cash

Cash is classified as held-for-trading and is recorded at fair value.

b) Use of estimates

The preparation of financial statements in conformity with Canadian GAAP requires that estimates and assumptions are made which affect reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the year. Actual results could differ from those estimations.

c) Foreign currencies

Foreign currency transactions are translated into Canadian dollars using the transaction date exchange rate. Monetary assets and liabilities denominated in foreign currencies

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

c) Foreign currencies (continued)

are adjusted to reflect exchange rates at the balance sheet date. Exchange gains or losses arising on the translation of monetary assets and liabilities or sale of investments are included in the statement of operations and changes in net assets in the year incurred.

d) Future accounting standards

The Accounting Standards Board (AcSB) requires all publicly accountable enterprises (PAE's) to adopt International Financial Reporting Standards (IFRS) for fiscal years beginning on or after January 1, 2011. The AcSB has stated that pension plans (as defined below) are PAE's; however, it has mandated that these plans will follow Section 4600 *Pension Plans,* of the CICA Handbook, rather than the applicable IFRS standard.

Section 4600 *Pension Plans*, is effective for fiscal years beginning on or after January 1, 2011 and is to be applied retrospectively to all prior periods presented. The Section applies not only to pension plans but also to benefit plans with characteristics similar to pension plans that provide benefits other than pensions (for example, retiree health care and life insurance benefits, long-term disability plans, and master trusts). This new Section is applicable to the Master Trust for its fiscal year commencing on January 1, 2011. The adoption of this new Section is not expected to have a material impact on the financial statements of the Master Trust as the majority of the new items are disclosure related items.

3. FINANCIAL INSTRUMENT RISK MANAGEMENT

a) Credit risk

Credit risk arises from the potential for issuers of securities to default on their contractual obligations. This risk is managed by the following policies and procedures:

- The Master Trust limits credit risk by dealing with securities that are considered to be investment-grade quality as rated by external credit rating agencies;
- The Statement of Investment Policies and Procedures (SIP&P) of the Master Trust requires the investment managers to minimize undue concentration of investments in any single geographic area, industry, or company;
- A requirement of the SIP&P is the investments of the Master Trust are distributed among several classes of assets based on an established asset mix. This asset mix specifies the minimum, maximum and optimal level by type of

3. FINANCIAL INSTRUMENT RISK MANAGEMENT (continued)

a) Credit risk (continued)

investment such as money market securities, bonds, and equities.

- The investment portfolio and investment managers are monitored continuously and their results are reviewed regularly by SAHO's Board of Directors.

Short-term investments consist of investments in an institutional short term investment fund (the Fund), which invests in high quality short term debt obligations issued or guaranteed by Canadian governments, or issued by corporations with a maximum term to maturity of one year. The minimum acceptable credit rating for these investments is R1 or equivalent.

Earnings are reinvested within the Fund.

Investments in bond funds consist of two active managed bond funds (the Funds). Earnings in these Funds are reinvested in each respective fund and distributed out to unit holders on an annual basis.

The Master Trust's maximum credit risk exposure related to financial assets is as follows:

Cash	$	35,317
Dividends receivable		27,360
Short-term investments		546,209
Bond funds		60,615,653
Equities		61,824,809
	$	123,049,348

Determination of fair value

The best evidence of a fair value is from an independent quoted market price for the same instrument in an active market. An active market is one where quoted prices are readily available, representing regularly occurring transactions. The determination of fair value requires judgment and is based on market information where available. Fair value measurements are categorized into levels within a fair value hierarchy based on the nature of the inputs used in the valuation.

3. FINANCIAL INSTRUMENT RISK MANAGEMENT (continued)

a) Credit risk (continued)

- Level 1 – quoted prices in active markets are readily available.
- Level 2 – valuation models using observable market inputs other than quoted market prices.
- Level 3 – models using inputs that are not based on observable market data.

All fair values of the financial assets of the Master Trust at December 31, 2010 and December 31, 2009 used Level 1 basis of fair values.

b) Liquidity risk

Liquidity risk is the risk that the Master Trust will not be able to meet all cash outflow obligations as they come due. The following policies and procedures are in place to mitigate this risk:

- The Plans maintain sufficient assets to discharge their future disability claim obligations and to generate cash flow required for disability payments without having to sell their units in the Master Trust;
- All investments of the Master Trust are rated as investment grade by external credit rating agencies, thus providing for a larger base to sell its investments if needed.

c) Interest rate risk

Interest rate risk refers to the adverse consequences of interest rate changes on cash flows, financial position and income. The Master Trust manages this exposure to fluctuations in interest rates by investing in a mix of fixed and variable rate investment assets. Duration is a measure used to estimate the extent market values of fixed income investments could change due to changes in interest rates.

d) Foreign currency risk

Foreign currency risk impacts the Master Trust upon conversion of non-Canadian holdings of pooled funds which invest in foreign equities and bonds at various points in time during the fiscal year at different foreign exchange rates. During the year, there may be adverse changes in foreign exchange rates. The largest notional amount of foreign currency held by the Master Trust is EAFE (Europe, Australasia and Far East) currencies with the remainder held in US dollars.

3. FINANCIAL INSTRUMENT RISK MANAGEMENT (continued)

d) Foreign currency risk (continued)

To mitigate currency risk, the Master Trust's investment policy allows up to 10% of the entire bond portfolio's market value to be invested in foreign currencies. At December 31, the exposure to US dollar denominated bonds was 1.60% (2009 – 1.23%) [US dollar investments represents 15.78% (2009 – 15.64%) of the entire investment portfolio] and EAFE currencies denominated bonds was nil (2009 – nil) [EAFE currencies investments represent 21.17% (2009 – 20.71%) of the entire investment portfolio].

At December 31, a 10% change in the Canadian dollar to US dollar exchange rate would result in approximately a $1.9 million (2009 – $1.7 million) change in net assets and unrealized gains/losses on investments. A 10% change in the Canadian dollar to EAFE currencies exchange rates as at December 31 would result in approximately a $2.6 million (2009 – $2.2 million) change in net assets and unrealized gains/losses on investments.

e) Equity risk

Equity risk is the uncertainty associated with the value of equity investments due to changes in equity markets. To mitigate equity risk, the SIP&P has investment policy guidelines in place that provide for prudent investment in equity markets within clearly defined limits. The Master Trust is exposed to changes in equity prices in Canadian, US and EAFE markets through its investments. Equity investments comprise approximately 50.3% (2009 – 50.4%) of the overall carrying value of the Master Trust investment fund.

The approximate impact to net assets and unrealized gain/losses on investments to a 10% change in equity prices is:

- $1.83 million (2009 – $1.65 million) for changes in Canadian equities (S&P/TSX Composite Index);
- $0.96 million (2009 – $0.81 million) for changes in US equities (S&P 500 Index)
- $1.36 million (2009 – $1.33 million) for changes in non-North American equities (MSCI EAFE Index); and
- $2.04 million (2009 – $1.66 million) for a change in Global pooled funds (MSCI AC World + Index)

4. CAPITAL MANAGEMENT

The primary objective of capital management for the Master Trust is to maintain adequate balances in its cash, short term and longer-term investment portfolios. These capital sources are used to assist in achieving consistency and stability in funding, which is then available to the Plans, for their use to pay current and future approved disability claims along with the related administrative expenses. The Master Trust is not subject to any externally imposed capital requirements.

The Master Trust's only source of cash is the amounts it receives from the Plans. Neither the Plans nor the Administrator contribute any other cash to the Master Trust. Also, the Master Trust cannot go to public capital markets to issue debt or common shares.

There have been no changes to the capital management objectives of the Master Trust as at December 31, 2010.

5. NET ASSETS

The net assets of the Master Trust, with a fair value of $123,049,348 at December 31, 2010 (December 31, 2009 – $108,453,221), represents the total fair value of the ownership units held by the Plans. The units held by the Plans are:

	2010	2009
Disability Income Plan - C.U.P.E.	**118,050.675**	111,149.503
Disability Income Plan - S.E.I.U.	**135,523.051**	133,386.891
Disability Income Plan - S.U.N.	**131,226.606**	113,805.086
Disability Income Plan - General	**150,154.826**	145,434.394
Total units issued and outstanding, end of year	**534,955.158**	503,775.874

The units issued and redeemed during the year were as follows:

	2010	2009
Balance, beginning of year	**503,775.874**	479,491.997
Issued during the year	**32,142.129**	31,499.951
Redeemed during the year	**(962.845)**	(7,216.074)
Balance, end of year	**534,955.158**	503,775.874

6. RELATED PARTIES

The Master Trust is related to the Plans and the Administrator. Transactions with these related parties are in the normal course of operations. They are recorded at the agreed upon exchange rates and are settled on normal trade terms.

Investment management fees are the only expense that is allowed under the Master Trust. All other administrative expenses of the Master Trust are paid by the Administrator, on behalf of the Plans. These expenses are charged directly to the Plans by the Administrator using a systematic, rational manner.